

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Woburn
Contributory Retirement System
For the Four Year Period
January 1, 1996 - December 31, 1999
PERAC 99: 06-099-35**

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September 26, 2002

The Public Employee Retirement Administration Commission has completed an examination of the **Woburn** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1996** to December 31, **1999**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners David Pickering and James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Woburn Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

1. Membership

The PERAC auditors sampled 5% of the membership to determine that the correct percentages are being withheld and that the 2% deduction is withheld from those members whose regular compensation exceeds \$30,000 and were hired after January 1, 1979. Thirteen percent of the sample contained errors including 2% deductions not taken on stipend earnings, and some members of the school department had 0.2% deducted instead of 2%.

Recommendation

A thorough review of the member's 2% deductions should be conducted to ensure that deductions are calculated according to each member's date of entry into the retirement system.

Board Response

The errors on the 2% deductions have been corrected on the school employees and the City Treasurer's stipend. Once school employee involved has had her account subsequently transferred to the MA Teachers' Retirement System, and the school department payroll administration has been notified to correct all others.

2. System Administration

For the years 1997 and 1998 the pages of the minute book were not pre-numbered or initialed. PERAC regulation 840 CMR 25.31(2) requires that the pages of the minute book be pre-numbered or initialed and that those members who attend a meeting must sign such minutes.

Recommendation

The Woburn Retirement System must pre-number the pages of the minute book and each member who attends a meeting must sign the minutes of the meeting(s) attended.

Board Response

The pages of the minutes book for 1997 and 1998 will be reviewed again, initialed where appropriate, as will all future pages.

3. Annual Statement

The Woburn Retirement System is reporting the amounts for both realized and unrealized gains and losses on its financial statements as a net number and not the gross amount as required by regulation 840 CMR 23.02.

Woburn Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

(Continued)

Recommendation

To be consistent with PERAC reporting requirements realized and unrealized gains and losses must be reported as a gross amount on the Investment Income Schedule of the Annual Statement.

Board Response

Both realized and unrealized gains and losses will be reported in the gross amount instead of net amount where required.

4. Cash Reconciliation

The City Treasurer was not performing a reconciliation of the retirement system's cash accounts on a monthly basis as required as custodian of the system's funds. It was also noted that the retirement board's Executive Secretary was performing the monthly cash reconciliation. Proper internal control procedures require that the Treasurer perform a monthly reconciliation of the cash accounts of the retirement system as part of his/her custodial duties.

Recommendation

When the Executive Secretary of the retirement Board reconciles the Board's cash accounts, a lack of segregation of duties and inadequate internal controls exist. The Woburn Retirement Board must require that the City Treasurer perform his/her statutory obligation as custodian of the funds.

Board Response

The Woburn Retirement Board has voted to require that the City Treasurer perform his statutory obligation as custodian of the funds.

5. Annuity Reserve Fund Interest Calculation

A review of general ledger account # 3294 and related accounts revealed that several small mathematical errors and mis-postings created a discrepancy in the ending fund balances.

Recommendation

Each of these discrepancies has been discussed with the Executive Secretary who has made the proper corrective entries to the fund balances. No further action is required by PERAC.

Board Response

The interest required calculations of this account will be performed in accordance with the recommendation.

6. Reporting

Regulation 840 CMR 4.03 requires that:

- (1) Within four weeks of the close of each month the board shall send to the Commission a photocopy of the following:
 - (a) cash book entries;
 - (b) trial balance; and
 - (c) journal entries.

The Woburn Retirement Board has not submitted the required reports listed since December of 2000.

Recommendation

The board must comply with the required reporting regulation.

Board Response

The Board will endeavor to comply with the regulations contained in 840 CMR 4.03 in a timely manner.

Woburn Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1996
AND ENDING DECEMBER 31, 1999**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	1999	1998	1997	1996
Cash	\$2,364,051	\$644,788	\$395,950	\$1,062,231
Short Term Investments	200,000	200,000	200,000	200,000
Fixed Income Securities (at book value)	22,019,262	24,055,950	21,762,674	21,646,126
Equities	35,048,287	31,126,216	26,648,468	18,787,380
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	0	0	0	0
Pooled International Equity Funds	5,409,875	4,261,764	0	0
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0	0
Pooled International Fixed Income Funds	3,796,540	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	1,169,127	0	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	2,245,769
PRIT Core Fund	3,754,266	3,053,759	3,665,154	0
Interest Due and Accrued	335,667	399,481	380,221	409,219
Accounts Receivable	1,863,028	2,112,392	1,531,771	2,504,263
Accounts Payable	0	0	0	0
TOTAL	<u>\$75,960,104</u>	<u>\$65,854,350</u>	<u>\$54,584,238</u>	<u>\$46,854,987</u>
FUND BALANCES				
Annuity Savings Fund	\$14,831,961	\$14,019,442	\$12,947,838	\$12,209,286
Annuity Reserve Fund	5,027,460	4,639,705	4,597,583	4,297,430
Pension Fund	13,170,194	13,698,318	13,618,939	13,508,706
Military Service Fund	0	0	0	0
Expense Fund	0	0	0	267,087
Pension Reserve Fund	42,930,489	33,496,885	23,419,877	16,572,478
TOTAL	<u>\$75,960,104</u>	<u>\$65,854,350</u>	<u>\$54,584,238</u>	<u>\$46,854,986</u>

Woburn Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1996
AND ENDING DECEMBER 31, 1999**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1996)	\$11,529,970	\$4,102,946	\$13,430,434	\$0	\$180,217	\$12,241,223	\$41,484,790
Receipts	1,374,666	126,135	3,631,618	0	261,219	4,331,255	9,724,893
Interfund Transfers	(520,365)	521,172	(806)	0	0	0	0
Disbursements	(174,984)	(452,823)	(3,552,540)	0	(174,350)	0	(4,354,696)
Ending Balance (1996)	12,209,286	4,297,430	13,508,706	0	267,087	16,572,478	46,854,986
Receipts	1,522,344	131,063	3,928,275	0	117,963	6,851,518	12,551,163
Interfund Transfers	(700,704)	704,823		0	0	(4,119)	0
Disbursements	(83,088)	(535,732)	(3,818,042)	0	(385,050)	0	(4,821,912)
Ending Balance (1997)	12,947,838	4,597,583	13,618,939	0	0	23,419,877	54,584,238
Receipts	1,722,532	136,722	4,087,953	0	454,319	10,076,823	16,478,348
Interfund Transfers	(453,945)	453,760		0	0	185	0
Disbursements	(196,984)	(548,360)	(4,008,574)	0	(454,319)	0	(5,208,236)
Ending Balance (1998)	14,019,442	4,639,705	13,698,318	0	0	33,496,885	65,854,350
Receipts	1,745,073	140,830	3,658,142	0	537,375	9,433,604	15,515,025
Interfund Transfers	(819,390)	819,390	0	0	0	0	0
Disbursements	(113,164)	(572,466)	(4,186,266)	0	(537,375)	0	(5,409,271)
Ending Balance (1999)	<u>\$14,831,961</u>	<u>\$5,027,460</u>	<u>\$13,170,194</u>	<u>\$0</u>	<u>\$0</u>	<u>\$42,930,489</u>	<u>\$75,960,104</u>

Woburn Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1996
AND ENDING DECEMBER 31, 1999**

	FOR THE PERIOD ENDING DECEMBER 31,			
	1999	1998	1997	1996
Annuity Savings Fund:				
Members Deductions	\$1,400,442	\$1,332,481	\$1,175,465	\$1,043,446
Transfers from other Systems	26,762	65,643	8,502	39,735
Member Make Up Payments and Redeposits	19,657	21,873	44,435	14,129
Investment Income Credited to Member Accounts	298,213	302,535	293,941	277,355
Sub Total	<u>1,745,073</u>	<u>1,722,532</u>	<u>1,522,344</u>	<u>1,374,666</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>140,830</u>	<u>136,722</u>	<u>131,063</u>	<u>126,135</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	50,658	46,207	118,237	62,560
Received from Commonwealth for COLA and Survivor Benefits	510,483	686,302	760,512	463,563
Pension Fund Appropriation	3,097,000	3,355,444	3,049,527	3,105,495
Sub Total	<u>3,658,142</u>	<u>4,087,953</u>	<u>3,928,275</u>	<u>3,631,618</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	261,219
Investment Income Credited to Expense Fund	<u>537,374</u>	<u>454,319</u>	<u>117,963</u>	<u>0</u>
Sub Total	<u>537,374</u>	<u>454,319</u>	<u>117,963</u>	<u>261,219</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	11,551	0
Pension Reserve Appropriation	0	211,112	139,650	0
Interest Not Refunded	2,171	1,827	691	643
Excess Investment Income	<u>9,431,434</u>	<u>9,863,884</u>	<u>6,699,627</u>	<u>4,330,612</u>
Sub Total	<u>9,433,604</u>	<u>10,076,823</u>	<u>6,851,518</u>	<u>4,331,255</u>
TOTAL RECEIPTS	<u>\$15,515,024</u>	<u>\$16,478,348</u>	<u>\$12,551,163</u>	<u>\$9,724,893</u>

Woburn Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1996
AND ENDING DECEMBER 31, 1999**

	FOR THE PERIOD ENDING DECEMBER 31,			
	1999	1998	1997	1996
Annuity Savings Fund:				
Refunds to Members	\$63,358	\$131,228	\$44,969	\$109,260
Transfers to other Systems	<u>49,806</u>	<u>65,756</u>	<u>38,119</u>	<u>65,724</u>
Sub Total	<u>113,164</u>	<u>196,984</u>	<u>83,088</u>	<u>174,984</u>
Annuity Reserve Fund:				
Annuities Paid	556,382	533,106	489,582	452,540
Option B Refunds	<u>16,084</u>	<u>15,254</u>	<u>46,150</u>	<u>283</u>
Sub Total	<u>572,466</u>	<u>548,360</u>	<u>535,732</u>	<u>452,823</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	2,807,580	2,686,175	2,473,182	2,264,624
Survivorship Payments	284,654	280,616	264,117	259,572
Ordinary Disability Payments	36,239	33,115	53,187	61,161
Accidental Disability Payments	652,069	623,454	637,128	581,060
Accidental Death Payments	214,776	240,635	265,972	237,326
Section 101 Benefits	83,767	51,967	37,080	70,465
3 (8) (c) Reimbursements to Other Systems	107,180	92,612	87,376	78,220
Refund/ Previous Transfer	0	0	0	113
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,186,266</u>	<u>4,008,574</u>	<u>3,818,042</u>	<u>3,552,540</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	17,513	17,060	15,288	0
Salaries	125,157	117,270	114,142	103,775
Legal Expenses	6,700	9,016	3,766	3,603
Medical Expenses	0	0	0	0
Travel Expenses	8,033	6,322	7,876	8,523
Administrative Expenses	29,270	33,016	43,029	10,661
Furniture and Equipment	13,460	4,357	6,347	10,909
Management Fees	236,793	190,218	153,181	0
Custodial Fees	45,448	49,562	41,421	36,878
Consultant Fees	55,000	27,500	0	0
Sub Total	<u>537,375</u>	<u>454,319</u>	<u>385,050</u>	<u>174,350</u>
TOTAL DISBURSEMENTS	<u>\$5,409,271</u>	<u>\$5,208,236</u>	<u>\$4,821,912</u>	<u>\$4,354,696</u>

Woburn Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1996
AND ENDING DECEMBER 31, 1999**

	FOR THE PERIOD ENDING DECEMBER 31,			
	1999	1998	1997	1996
Investment Income Received From:				
Cash	\$118,194	76560.46	\$89,658	\$55,861
Short Term Investments	8,637	5,991	7,625	8,514
Fixed Income	1,940,387	1,840,964	1,756,635	1,894,115
Equities	354,127	295,898	340,680	288,036
Pooled or Mutual Funds	123,839	43,362	419,385	222,824
Commission Recapture	<u>53,102</u>	<u>6,099</u>	<u>6,618</u>	7,565
TOTAL INVESTMENT INCOME	<u>2,598,285</u>	<u>2,268,874</u>	<u>2,620,602</u>	<u>2,476,915</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	4,974	29,070	15,976
Realized Gains	4,469,374	1,640,358	1,735,703	1,529,326
Unrealized Gains	5,564,699	7,812,753	5,060,464	1,923,787
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>335,667</u>	<u>1,338,078</u>	<u>380,221</u>	<u>409,219</u>
Sub Total	<u>10,369,741</u>	<u>10,796,164</u>	<u>7,205,457</u>	<u>3,878,308</u>
Less:				
Decrease in Amortization of Fixed Income Securities	(1,192,326)	(100,755)	(104,243)	(50,949)
Paid Accrued Interest on Fixed Income Securities	(152,476)	(92,805)	(130,222)	(127,897)
Realized Loss	(363,695)	(1,107,818)	(73,263)	(438,352)
Unrealized Loss	(452,196)	(625,980)	(1,866,519)	(401,622)
Custodial Fees Paid	0	0	0	(3,627)
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	(149,076)
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	(399,481)	(380,221)	(409,219)	(449,598)
Sub Total	<u>(2,560,175)</u>	<u>(2,307,579)</u>	<u>(2,583,465)</u>	<u>(1,621,121)</u>
NET INVESTMENT INCOME	<u>10,407,851</u>	<u>10,757,460</u>	<u>7,242,594</u>	<u>4,734,102</u>
Income Required:				
Annuity Savings Fund	298,213	302,535	293,941	277,355
Annuity Reserve Fund	140,830	136,722	131,063	126,135
Military Service Fund	537,375	454,319	0	0
Expense Fund	<u>0</u>	<u>0</u>	<u>117,963</u>	<u>0</u>
TOTAL INCOME REQUIRED	<u>976,418</u>	<u>893,576</u>	<u>542,967</u>	<u>403,490</u>
Net Investment Income	10,407,851	10,757,460	7,242,594	4,734,102
Less: Total Income Required	<u>976,418</u>	<u>893,576</u>	<u>542,967</u>	<u>403,490</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$9,431,434</u>	<u>\$9,863,884</u>	<u>\$6,699,627</u>	<u>\$4,330,612</u>

Woburn Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category).

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$2,364,051	3.20%	100
Short Term		200,000	0.27%	100
Fixed Income		22,019,262	29.85%	40 - 80
Equities		35,048,287	47.52%	60
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		0	0.00%	
Pooled International Equity Funds		5,409,875	7.33%	
Pooled Global Equity Funds		0	0.00%	
Pooled Domestic Fixed Income Funds		0	0.00%	
Pooled International Fixed Income Funds		3,796,540	5.15%	
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		0	0.00%	
Pooled Real Estate Funds		1,169,127	1.59%	
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		<u>3,754,266</u>	<u>5.09%</u>	100
GRAND TOTALS	\$0	<u>\$73,761,408</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **1999**, the rate of return for the investments of the **Woburn** Retirement System was 12.32%. For the five year period ending December 31, **1999**, the rate of return for the investments of the **Woburn** Retirement System averaged 16.88%. For the 15-year period ending December 31, **1999**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Woburn** Retirement System was 12.92%.

Woburn Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

The **Woburn** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

February 21, 1992

4.03 (1) Within four (4) weeks of the close of each month , after all entries for the month have been posted and a trial balance performed, the board shall send to the Public Employee Retirement Administration a photocopy of the following for the month:

- (a) cash book entries;
- (b) trial balance; and
- (c) journal entries.

September 21, 1992

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, excluding Columbia Gas 9.62% due 6/15/2005.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, excluding Columbia Gas 9.62% due 6/15/2005 which may be held at the discretion of the board's qualified investment manager.

October 10, 1996

20.03(1) Equity investments shall not exceed 60% of the total market value of the portfolio at the time of purchase.

December 29, 1997

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 4% of the portfolio valued at market.

August 23, 1999

19.01(6) No board shall invest in a group trust, limited partnership, or other form of pooled investment which invests in real estate if:

- c) more than 25% of the funds thereof are invested in a single investment.

Woburn Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS(CONTINUED)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

January 15, 1999

19.01(6) Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Woburn Retirement System (the "System") with a real estate investment fund, as contemplated by 840 19.01(4)-(6), known as Realty Associates Fund V Corporation ("the Fund"), and while the funds of the System are so invested the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et. seq. and 17.00 et. seq., the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualifies as a "real estate operating company" or "venture capital operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund otherwise would not be treated as subject to ERISA.

May 11, 2001

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, the sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Woburn Retirement Board requests as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Woburn request as it applies to 840 CMR 17.01(6).

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Woburn Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

Woburn Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS(CONTINUED)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in non US currency.

Woburn Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Woburn** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Woburn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Woburn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Woburn Retirement System has not submitted any supplementary membership regulations.

Woburn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the **City Auditor** who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member:	Gerald W. Surette	City Auditor
Appointed Member:	Philip C. Kiklis	Term Expires: Indefinite
Elected Member:	Marilou E. Lundin	Term Expires: 11/8/2002
Elected Member:	Denis P. Devine	Term Expires: 12/31/2004
Appointed Member:	John P. Giangrande	Term Expires: 1/1/2003

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000 Fiduciary Liability
Elected Member:)	MACRS Policy
Appointed Member:)	
Staff Employee:)	

Woburn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PricewaterhouseCoopers LLP** as of **January 1, 2000**.

The actuarial liability for active members was	\$ 48,197,769
The actuarial liability for retired members was	40,564,993
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The total actuarial liability was	88,762,762
System assets as of that date were	75,960,104
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The unfunded actuarial liability was	\$ 12,802,658
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The ratio of system's assets to total actuarial liability was	85.6%
As of that date the total covered employee payroll was	\$ 17,183,350

The normal cost for employees on that date was 7.60% of payroll

The normal cost for the employer was 6.50% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2000

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2000	\$ 75,960,104	\$ 88,762,762	\$ 12,802,658	85.6%	\$17,183,350	74.51%
1/1/1999	\$ 66,860,613	\$ 85,472,346	\$ 18,611,733	78.2%	\$16,269,482	114.40%
1/1/1998	\$ 55,481,151	\$ 78,260,821	\$ 22,779,670	70.9%	\$15,426,806	147.66%

Woburn Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 1999

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Superannuation	12	20	10	38	9	5	12	13	6	16
Ordinary Disability	0	4	0	2	0	0	0	0	0	0
Accidental Disability	3	1	0	1	2	0	0	1	2	1
Total Retirements	15	25	10	41	11	5	12	14	8	17
 Total Retirees, Beneficiaries and Survivors	 351	 329	 334	 371	 376	 372	 366	 371	 371	 379
 Total Active Members	 533	 534	 510	 477	 479	 493	 522	 546	 492	 537
 Pension Payments										
Superannuation	\$1,651,848	\$1,645,322	\$1,691,222	\$2,215,846	\$2,420,880	\$2,220,947	\$2,264,624	\$2,473,182	\$2,686,175	\$2,807,580
Survivor/Beneficiary Payments	132,985	131,156	236,813	257,892	271,232	247,217	259,572	264,117	280,616	284,654
Ordinary Disability	65,187	65,013	71,286	104,683	64,182	60,867	61,161	53,187	33,115	36,239
Accidental Disability	545,678	564,702	563,705	523,421	637,621	620,771	581,060	637,128	623,454	652,069
Other	146,884	215,692	214,957	214,715	313,380	313,659	386,009	390,428	385,214	405,724
Total Payments for Year	<u>\$2,542,582</u>	<u>\$2,621,885</u>	<u>\$2,777,983</u>	<u>\$3,316,557</u>	<u>\$3,707,295</u>	<u>\$3,463,461</u>	<u>\$3,552,426</u>	<u>\$3,818,042</u>	<u>\$4,008,574</u>	<u>\$4,186,266</u>